

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

LIVINGSTON COMMUNITY
WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

LIVINGSTON COMMUNITY WATER AUTHORITY

WATER AUTHORITY BOARD

Mark St. Charles - Chairperson
William Palmer - Trustee
H.E. "Bud" Prine - Trustee
John Rogers - Trustee
Patrick Hohl - Trustee
Howard Dillman - Vice Chairperson
William Desmond - Treasurer (non-voting)
Athena Willets - Secretary (non-voting)

WATER AUTHORITY ATTORNEY

Neal D. Nielsen, P.C.

WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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June 1, 2004

Livingston Community Water Authority Board
10001 Silver Lake Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of Livingston Community Water Authority as of December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Authority, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Livingston Community Water Authority as of December 31, 2003, and the results of its operations and its cash flows for the period of inception through December 31, 2003 then ended in conformity with accounting principles generally accepted in the United States of America.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

LIVINGSTON COMMUNITY WATER AUTHORITY
BALANCE SHEET
DECEMBER 31, 2003

ASSETS

CURRENT ASSETS

Cash	\$ 50,982	
Accounts receivable - water	2,521	
Accounts receivable - member township	<u>4,384</u>	
Total current assets		\$ 57,887

RESTRICTED ASSETS

Cash - construction		6,896,276
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PROPERTY, PLANT AND EQUIPMENT

Land	298,233	
Well, building and distribution	<u>2,807,265</u>	
	3,105,498	
Less accumulated depreciation	<u>70,182</u>	
Net property, plant and equipment		3,035,316

CONSTRUCTION IN PROGRESS

		<u>1,124,643</u>
Total assets		<u>\$ 11,114,122</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Notes payable - member townships		\$ 102,821
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FUND EQUITY

Retained earnings		<u>11,011,301</u>
Total liabilities and fund equity		<u>\$ 11,114,122</u>

The accompanying notes are an integral part of these financial statements

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF CHANGES IN FUND EQUITY
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

	<u>Retained Earnings</u>
BEGINNING BALANCE - AUTHORITY INCEPTION	\$
ADDITIONS AND DEDUCTIONS	
Other income	124
Depreciation	(70,182)
Member contributions	11,124,725
Net (loss) excluding member contributions, depreciation and interest income	(46,101)
Interest income	<u>2,735</u>
BALANCE, DECEMBER 31, 2003	<u>\$ 11,011,301</u>

The accompanying notes are an integral part of these financial statements

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

OPERATING REVENUES	
Billings	\$ 17,192
Member contributions	<u>11,124,725</u>
Total operating revenues	<u>11,141,917</u>
OPERATING EXPENSES	
Depreciation	70,182
Contracted labor - operators	6,733
Additional labor costs	225
Meters and supplies	1,779
Water tests	360
Repairs and maintenance - grounds and buildings	1,560
Repairs and maintenance - other	216
Permit fees	269
Utilities - electric	1,617
Utilities - gas	747
Telephone	195
Well head protection	<u>35,985</u>
Total operating expenses	<u>119,868</u>
ADMINISTRATIVE EXPENSES	
Insurance	8,472
Bank charges	139
Office expenses	181
Accounting and audit fees	2,780
Legal fees	<u>2,035</u>
Total administrative expenses	<u>13,607</u>
Total expenses	<u>133,475</u>
OPERATING INCOME	<u>11,008,442</u>
OTHER INCOME	
Interest	2,735
Miscellaneous	<u>124</u>
Total other income	<u>2,859</u>
Net income	<u>\$11,011,301</u>

The accompanying notes are an integral part of these financial statements

LIVINGSTON COMMUNITY WATER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES

Operating income		\$ 11,008,442
Adjustments to reconcile operating income to net cash from (used in) operating activities		
Miscellaneous income	\$ 124	
Depreciation	70,182	
Changes in assets and liabilities		
(Increase) in accounts receivable - water billings	(2,521)	
(Increase) in accounts receivable – member townships	(4,384)	
Increase due to member townships	<u>102,821</u>	
Total adjustments		<u>166,222</u>
Net cash from operating activities		11,174,664

CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED
FINANCING ACTIVITIES

Interest on reserved funds	1,691	
Acquisition of property, plant and equipment	(3,105,498)	
Construction in progress costs	<u>(1,124,643)</u>	
Net cash (used in) capital and related financing activities		(4,228,450)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on operating funds	<u>1,044</u>
Increase in cash	6,947,258

CASH AT INCEPTION

CASH AT DECEMBER 31, 2003	<u>\$ 6,947,258</u>
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The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

**NOTE 1 - DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
OF THE REPORTING ENTITY**

The Livingston Community Water Authority was established on June 23, 2000, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer water supply systems.

The financing of the water system has taken place at the township level. The related debt service funds are maintained in the financial statements of the three member townships.

The incorporating municipalities creating the Authority are Green Oak Township, Hamburg Township, and the Charter Township of Brighton, all in the County of Livingston. The Authority board is composed of two members from each of the incorporating municipalities who are voting members. The secretary and treasurer are non-voting members and are appointed by the six voting members.

The Authority purchased from an individual an existing well house, pumps, land and a distribution system in one subdivision with approximately 20 customers hooked to the water system in January 2003. The Authority is currently expanding the water system with monies contributed by each member Township. The current expansion will cover customers in Green Oak Township only.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

BASIS OF ACCOUNTING - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

REPORTING MODEL

The reporting model used by the Authority is the model in effect prior to the issuance of GASB statement number 34. The Authority is a phase 3 government which is not required to adopt this statement until the fiscal year ending December 31, 2004.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>6,847,258</u>	<u>6,847,559</u>
Total deposits	<u>\$ 6,947,258</u>	<u>\$ 6,947,559</u>

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, accounts receivable that are over 90 days old will be placed on the tax roll for the applicable township. As of December 31, 2003 there was \$2,521 of outstanding receivables due to the Authority. No amounts were over 90 days old.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

NOTE 4 - CHANGES IN PROPERTY, PLANT AND EQUIPMENT

	<u>Inception 6-23-00</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12-31-03</u>
Well, building and distribution	\$	\$ 2,807,265	\$	\$ 2,807,265
Land		<u>298,233</u>		<u>298,233</u>
Total	<u>\$</u>	<u>\$ 3,105,498</u>	<u>\$</u>	<u>\$ 3,105,498</u>
Accumulated depreciation	<u>\$</u>	<u>\$ 70,182</u>	<u>\$</u>	<u>\$ 70,182</u>
Construction in Progress	<u>\$</u>	<u>\$ 3,931,908</u>	<u>\$ 2,807,265</u>	<u>\$ 1,124,643</u>

Depreciation expense related to the portion of property, plant and equipment is recorded as a current expense in these financial statements. The member townships have paid the Authority their respective portion of costs related to the construction of the water system. These payments to the Authority are recorded as revenues by the Authority in the year they are received.

Depreciation is recorded on the straight-line basis over the estimated useful life of the asset which is 40 years.

LIVINGSTON COMMUNITY WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE PERIOD OF INCEPTION THROUGH DECEMBER 31, 2003

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The indirect method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>Inception</u>	<u>12-31-03</u>
Current assets		
Cash	\$	\$ 50,982
Restricted assets		
Cash - construction	<u> </u>	<u>6,896,276</u>
Total cash	<u>\$</u>	<u>\$ 6,947,258</u>

NOTE 6 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.